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Their Crypto Company Collapsed. They Went to Bali.

The implosion of Three Arrows Capital, a cryptocurrency hedge fund, devastated the industry. Its two founders spent the next year surfing, meditating and traveling the world.



By David Yaffe-Bellany

David Yaffe-Bellany, who covers crypto, reported from Barcelona, Spain, and from Singapore.

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Not long after his cryptocurrency hedge fund collapsed last year, spawning a market meltdown that devastated the industry, Kyle Davies got on a plane and left his troubles behind.

He flew to Bali. As his company was liquidated and law enforcement authorities opened investigations on two continents, Mr. Davies spent his days painting in cafes and reading Hemingway on the beach.

He also went sightseeing. He traveled in Thailand, where the fried oysters cost only a few dollars, and admired the local architecture in Malaysia. He posted a photo from a private zoo in Dubai, showing him stroking a tiger chained to a pole. In Bahrain, he attended a Formula 1 event in the run-up to the Grand Prix.

One clear evening, on a rooftop in Bali, Mr. Davies took shrooms with a group of crypto colleagues. “You look at the stars, and the stars are just, like, moving,” he recalled over dinner last month at a seafood restaurant in Barcelona, Spain, where he was vacationing with his wife and two young daughters. “You touch the grass, and it feels, like, not like normal grass.”

Life as a crypto industry pariah, it turned out, wasn’t so bad.

A year ago, Three Arrows Capital, the hedge fund founded by Mr. Davies and Su Zhu, both now 36, imploded almost overnight. Worshipped by their hundreds of thousands of Twitter followers, Mr. Davies and Mr. Zhu had been crypto superstars, known for their trading acumen and bold predictions about the market. They were fixtures on the crypto podcast circuit whose influence allowed them to borrow hundreds of millions of dollars from leading firms and make big bets on the future of the industry.

When their hedge fund failed, a large swath of the industry was dragged down with it. The ensuing crisis drained the savings of millions of amateur investors and plunged other companies into bankruptcy.

But by their own account, Mr. Davies and Mr. Zhu have been thriving. They left Singapore, where Three Arrows was based, and traveled around Asia, effectively taking the summer off. Mr. Davies started meditating. Mr. Zhu played video games and found a surf instructor. His old crypto associates were bad-mouthing him in the press, but he made new friends, a mix of surfer types and UFC fighters.

“They had a lot of empathy and sympathy for me,” Mr. Zhu said from his luxury home in Singapore. “They get defeated in a big fight, lose sponsorships or whatever, and everyone’s crying. But then the fighter himself — his mind has already passed to the next fight.”

After the crypto industry crashed last year, erasing more than \$1 trillion from the market, some of the business’s leading figures were held to account. Changpeng Zhao, the chief executive of Binance, the world’s largest crypto exchange, is under criminal investigation and facing a lawsuit from the Securities and Exchange Commission. Sam Bankman-Fried, the founder of the FTX exchange, is under house arrest at his childhood home in Palo Alto, Calif., awaiting trial on fraud charges. Do Kwon, the South Korean entrepreneur who created the failed Luna cryptocurrency, was apprehended in Montenegro this spring after dodging the authorities for months.



Do Kwon, the creator of the Luna cryptocurrency, on his way to a court appearance in Montenegro last month. Boris Pejovic/EPA, via Shutterstock



Changpeng Zhao, who runs the Binance crypto exchange, was sued by the Securities and Exchange Commission and is under criminal investigation. Benjamin Girette/Bloomberg



Sam Bankman-Fried, the founder of the FTX exchange, is awaiting trial on fraud charges. Desiree Rios/The New York Times

Yet many other top executives who gained wealth and status by marketing crypto to the masses have avoided serious repercussions. They had cashed out early, invested in real estate or holed up in tax havens.

The Three Arrows founders are two of the most prominent examples. They are still living comfortably, after managing a fund that oversaw more than \$4 billion at its peak. Mr. Davies and Mr. Zhu declined to provide an estimate of their total wealth, but said they had saved enough over the years that they didn't need to work again.

Neither was willing to apologize for the collapse. Three Arrows owes its creditors \$3.3 billion; the firm was registered in the British Virgin Islands, and its court-appointed liquidators there claim that Mr. Davies and Mr. Zhu have refused to cooperate in the recovery process. In October, Bloomberg reported that federal regulators in the United States were investigating whether Mr. Davies and Mr. Zhu had misrepresented their finances to Three Arrows investors.

Mr. Davies and Mr. Zhu maintain that they did nothing wrong. They said they had faced death threats, but pointed out that no government agency had sued them or sought their arrests.

A friend recently asked Mr. Davies whether he felt any remorse. "Remorse for what?" he said he had replied.

For the past few months, Mr. Davies and Mr. Zhu have been planning a comeback. In April, they unveiled Open Exchange, a marketplace for traders who lost money in last year's crypto implosions. Customers will be able to buy and sell claims to the bankruptcy estates of defunct crypto firms like FTX and possibly Three Arrows itself.

In pitch documents sent to investors in January, Mr. Davies and Mr. Zhu code-named their new company “GTX,” an alphabetical successor to Mr. Bankman-Fried’s failed exchange.

“I just thought it was very funny,” Mr. Zhu said.

A crypto ‘supercycle’



After traveling in Bali and Dubai, Mr. Zhu returned to Singapore, where he lives in a home he bought at the height of Three Arrows’ success. Ore Huiying for The New York Times

Mr. Davies and Mr. Zhu have lived parallel lives. They grew up in the Northeastern United States and went to high school together at Phillips Academy in Andover, Mass. They became business partners in the mid-2000s, while undergraduates at Columbia University. The summer after their freshman year, they traveled to Buenos Aires and set up shop in a cafe, offering to teach local workers how to play online poker and then stake them some money in return for a cut of their winnings.

But their plan to create an army of South American cardsharps had a fatal flaw: Neither of them spoke Spanish. They had wrongly assumed that working-class Argentines would understand English.

After graduating from Columbia, Mr. Davies and Mr. Zhu worked overlapping stints at Credit Suisse before founding Three Arrows in 2012 when they were in their mid-20s. They started out trading financial products tied to foreign currencies but switched to crypto around 2019, as the market was emerging from a major slump.

By 2021, as crypto prices surged to record levels, Mr. Davies and Mr. Zhu were managing billions of dollars, investing in crypto start-ups and borrowing hundreds of millions to fuel even bigger bets. Mr. Zhu amassed 500,000 followers on Twitter, promoting his theory of a crypto “supercycle” destined to send the price of Bitcoin north of \$1 million.

Mr. Davies said he viewed the whole enterprise as little different from an online game. “If you’re very good at the game, you make a lot of money,” he said.

For a while, the bets paid off. According to media reports, Mr. Zhu spent \$35 million on a good-class bungalow, a type of mansion popular among Singapore’s financial elite, and settled in a quiet, tree-lined neighborhood of the island.

Mr. Davies pursued an even more extravagant prize. “I just told Su: ‘I’m going to get a boat. I need it,’” he recalled. “Su was like, ‘Well, I need it, too.’ And I was like, ‘Well, we need it together then.’”

They picked out a superyacht, designed by the Italian shipbuilder Sanlorenzo, with five decks, two retractable terraces and a swimming pool. They christened the boat Much Wow, a reference to a meme popularized by investors in the joke cryptocurrency Dogecoin.

The yacht became Mr. Davies’s pet project. Inside, he planned to display a collection of nonfungible tokens, the unique digital collectibles known as NFTs. One floor was set to house a hydroponic garden — an addition requested by Mr. Zhu’s wife, who is a biologist and an avid gardener.

It was a heady time. “I actually was looking at some islands as well,” Mr. Davies said. But as he put the finishing touches on the boat, the crypto market was veering toward a crisis. In Singapore, Mr. Zhu and Mr. Davies had started socializing with Mr. Kwon, the creator of Luna. In February 2022, they bought \$200 million of Luna tokens.

Three months later, Luna lost all its value in a matter of days. The crash sent the price of every major crypto token plummeting. Many of Three Arrows’ other bets started souring fast.

As the market cratered, the founders’ lenders ordered them to pay back hundreds of millions of dollars — money that Three Arrows no longer had.

Behind the scenes, it was chaos. At one point, Three Arrows tried to borrow 5,000 Bitcoin, worth \$125 million at the time, from the crypto lending firm Genesis to pay back a separate loan to a different creditor, according to documents filed in court in the British Virgin Islands. (Mr. Zhu said that account of their financial maneuvering was inaccurate.) As the company’s fate became clear, its lenders complained that Mr. Davies and Mr. Zhu weren’t responding to messages.

The impact of the firm’s implosion was immediate and sweeping. One of Three Arrows’ largest creditors was Voyager Digital, a crypto bank that had lent it about \$700 million. After Three Arrows defaulted on that loan, Voyager became insolvent, and the savings of millions of its customers vanished.

In letters to the judge overseeing Voyager’s bankruptcy, its customers described the impact of those life-changing losses. “Losing this money with no end in sight has been unbearable for my family,” wrote one investor who had \$30,000 stored on Voyager. “I wake up most nights and just walk up and down the stairs contemplating on my own mistakes.”

On Twitter, furious crypto investors blamed Mr. Davies and Mr. Zhu for accelerating the market crash. Singapore’s financial regulator reprimanded Three Arrows, saying the firm had provided “misleading” information to the government. In the media, one creditor accused the founders of lying about their finances and compared them to Bernie Madoff, the notorious Ponzi schemer.

Mr. Zhu said his lawyers had assured him that Three Arrows’ actions were “whiter than white.” By the time the firm was liquidated last June, he and Mr. Davies were in Bali. Mr. Zhu was learning to surf. Mr. Davies bought a paint set and started experimenting with still lifes.

“You eat very fatty pork dishes, and you drink a lot of alcohol, and you go to the beach and you just meditate,” Mr. Davies said as he recounted his travels. “You have these magical experiences.”

In late June, a court in the British Virgin Islands appointed liquidators at the consulting firm Teneo to take over the fund and recover the more than \$3 billion that creditors were owed. For weeks, the founders’ whereabouts were not publicly known. The liquidators complained in court that Mr. Davies and Mr. Zhu were withholding crucial records.

During a conference call in July, the founders appeared on Zoom with their cameras turned off, and stayed silent as Three Arrows’ new overseers repeatedly questioned them, according to an account that the liquidators gave in court.

Mr. Davies and Mr. Zhu say they’ve cooperated with the legal process. But in December, a lawyer for the liquidators, Adam Goldberg, told a bankruptcy judge that the two men had “failed to engage in delivery of information and assets required by their duties to creditors.”

“The founders’ behavior shows they have something to hide,” Mr. Goldberg said.

Making a comeback



"I really spent so much time meditating in Bali that I'm really just pretty zenned out," Mr. Davies said. Anna Huix for The New York Times

After traveling in Bali and Dubai, Mr. Zhu returned to Singapore, where he has been living with his wife and two young daughters in the good-class bungalow he bought at the height of Three Arrows' success. Last year, the couple converted their yard into a permaculture farm — an elaborate system of lakes and gardens meant to replicate self-sustaining ecosystems in nature. It's home to ducks, chickens and numerous types of dragonflies.

One afternoon in May, a shirtless man wandered the rows of vegetation, snapping photos. "One of the foremost experts on insects in Singapore," Mr. Zhu explained.

Like many crypto evangelists, Mr. Zhu has a propensity for audacious pronouncements. He once predicted that disputes over crypto could cause a civil war in the United States, and he often frames his observations about the market in world-historical terms.

"We're entering the age of chivalry," he said over dinner last month. An hour or two later, he added: "We're in the golden age of slander."

As Mr. Zhu led a tour of the grounds, he stopped by the chicken enclosure to offer a disquisition on economic history. "I've always been quite anticapitalist," he said. He also insisted he was "actually against yachts personally."

His wife, Evelyn, gave him a skeptical look. "You did have that dream of traveling around the world," she said.

The Much Wow never set sail. The shipbuilder canceled its contract with Mr. Davies and Mr. Zhu after they missed a final payment, according to court records; the yacht was sold to a new buyer, and Three Arrows' liquidators are seeking \$30 million from that transaction. The liquidators are also raising money through other avenues: Last month, Sotheby's auctioned a collection of Three Arrows' NFTs for about \$2.5 million.

Mr. Davies and Mr. Zhu insist they have handed over records to the firm's new management. But the liquidators say that they are still missing crucial material, and that the founders' lack of cooperation has doubled the cost of the recovery process.

"On the date of a recent hearing where they were supposed to appear, one of them seemed to be tweeting from a boat in Dubai," said Russell Crumpler, a senior managing director at Teneo who has led the liquidation in the British Virgin Islands.

So far, none of the government inquiries into Three Arrows have led to charges. A spokeswoman for the Monetary Authority of Singapore, the agency that reprimanded Mr. Davies and Mr. Zhu last year, said it had been "assessing if there were further breaches." Representatives for the S.E.C. and the Commodity Futures Trading Commission declined to comment.

Mr. Davies said he was ready to move on from Three Arrows by the end of last summer. "I really spent so much time meditating in Bali that I'm really just pretty zenned out," he said.

Within a few months of seeing their company implode, he and Mr. Zhu were discussing new business ventures, including a co-living scheme in Bali, possibly involving a crypto token.

"The waves — they just keep coming," Mr. Zhu said, reaching for a surfing metaphor. "You can crash on a big wave. It doesn't matter. You can injure yourself and just heal, and get the next one."

Mr. Davies and Mr. Zhu started to re-establish a strong public presence in November, around the time FTX failed. Suddenly, there was an even bigger villain in town.

Mr. Davies went on CNBC, where he argued, without citing much evidence, that Mr. Bankman-Fried of FTX had manipulated the crypto markets in an intentional effort to hurt Three Arrows. (Mr. Bankman-Fried denied the claim.) A presenter asked Mr. Davies if he had moved to Bali because Indonesia has no extradition treaty with the United States.

"No," he replied. "It's just a good place to be."

Late last year, Mr. Davies and Mr. Zhu started their new company, Open Exchange, with Mark Lamb and Sudhu Arumugam, founders of CoinFLEX, a crypto firm that went under last year.

The business has had a rough start. Some companies listed as investors on Open Exchange's Twitter account have denied any involvement. A financial regulator in Dubai said Open Exchange was operating without a license.

Mr. Zhu said he was tuning out the criticism. On Twitter, he responded to a negative article in The Wall Street Journal by quoting John F. Kennedy: "We choose to go to the moon in this decade and do the other things not because they are easy, but because they are hard."

"I've already created 75 jobs," he said over dinner in Singapore. "At least these people like me."

This month, Open Exchange unveiled its own cryptocurrency, called OX, like the animal. The price shot up over a couple of days. "I'm getting early 3AC vibes all over again," Mr. Davies wrote on Twitter on Tuesday. "Nothing compares to the energy of a startup."

Privately, Mr. Davies has been encouraging Three Arrows' creditors to trade their bankruptcy claims on Open Exchange. In January, he invited creditors to an "ad hoc 3AC creditor meeting." But on the call, Mr. Davies spoke the entire time, according to two people familiar with the matter; he ended the session just as someone was trying to ask a question.

In Barcelona last month, Mr. Davies seemed relaxed, and spoke glowingly of the "amazing cafes" on Las Ramblas, a busy thoroughfare that cuts across the heart of the city. One Saturday night, he ate a late dinner at Els Pescadors, a seafood restaurant near the beach, ordering oysters, croquettes, local wine and three rounds of whiskey.

By the end of the meal, Mr. Davies was rattling off business ideas. In Dubai, he said, he has made inquiries about opening a chicken restaurant, possibly in the form of a cloud kitchen, with no storefront. For a while, he and Mr. Zhu considered making a film about Do Kwon and the collapse of Luna. "Our idea was basically that we would do an empathy piece," he said. "We had a whole team that was going to produce it at Sundance or whatever."

Mr. Davies has also thought about getting into the artificial intelligence industry. "I would like to believe that I can create two more businesses," he said. "But I'm also OK with the idea that I'm fully retired at this point."

He left the restaurant at midnight, strolling down a busy street lined with outdoor bars, where murmurs of late-night conversation echoed in the distance. He was beaming.

"If anyone has any problems," Mr. Davies declared, "just go to Bali." Then he turned, swaying slightly, and walked into the night.

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